

Report of the Independent Auditors



UNITED STATES DEPARTMENT OF EDUCATION OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 16, 2023

The Honorable Miguel Cardona
Secretary of Education
Washington, D.C. 20202

Dear Secretary Cardona:

The enclosed Independent Auditors' Report (report) covers the consolidated balance sheet of the United States Department of Education (Department) as of September 30, 2023, and the related notes (the consolidated financial statement), to comply with the Chief Financial Officers Act of 1990, as amended. The report should be read in conjunction with the Department's consolidated financial statement to fully understand the context of the information contained therein.

We engaged the independent certified public accounting firm KPMG LLP (KPMG) to audit the consolidated financial statement of the Department as of September 30, 2023. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements*. Following is a summary of the results reported in the Independent Auditors' Report.

Report on the Audit of the Consolidated Financial Statement

Disclaimer of Opinion

- KPMG has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion because of unresolved errors KPMG identified in the underlying data used to calculate the subsidy re-estimates for the Department's direct loan and loan guaranty programs.

Report on Internal Control Over Financial Reporting

Material Weakness (Exhibit A)

- Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement.

Significant Deficiencies (Exhibit B)

- Information Technology Controls Need Improvement, and
- Entity Level Controls Need Improvement.

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Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

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Report on Compliance and Other Matters

Compliance and Other Matters (Exhibit C)

- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Federal Financial Management Improvement Act of 1996 (FFMIA)

In connection with the contract, the Office of Inspector General reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the consolidated financial statement in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Department's consolidated financial statement or internal control over financial reporting, or conclusions on whether the Department's financial management systems complied substantially with the three FFMIA requirements, or on compliance with laws and other matters. KPMG is responsible for the report dated November 16, 2023, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We appreciate the cooperation given KPMG and my office during the audit. If you have any questions or would like to discuss the report, please contact me at (202) 245-6900.

Sincerely,



Sandra D. Bruce
Inspector General

Enclosure



KPMG LLP
 Suite 12000
 1801 K Street, NW
 Washington, DC 20006

Independent Auditors' Report

Inspector General
 United States Department of Education

Secretary
 United States Department of Education:

Report on the Audit of the Consolidated Financial Statement

Disclaimer of Opinion

We were engaged to audit the consolidated balance sheet of the United States Department of Education (Department) as of September 30, 2023, and the related notes (the consolidated financial statement).

We do not express an opinion on the accompanying consolidated financial statement of the Department. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statement.

Basis for Disclaimer of Opinion

During fiscal year 2023, we identified errors in the underlying data used to develop assumptions used to calculate the subsidy re-estimates for the Department's direct loan and loan guaranty programs. Management was unable to determine the extent of the impact of these issues on the balance sheet and related notes. As a result of this matter, we are unable to determine whether any adjustments to the balance sheet might have been necessary with respect to the fiscal year 2023 Loan Receivables, Net – Direct Loan Program; Loan Receivables, Net – Federal Family Education Loan (FFEL) Program; Subsidy Due to Treasury; Loan Guarantee Liabilities; Unexpended Appropriations; Cumulative Results of Operations; and the related notes.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the fiscal year 2023 Agency Financial Report to provide additional information for the users of its consolidated financial statement. Such information is not a required part of the consolidated financial statement or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statement

Management is responsible for the preparation and fair presentation of the consolidated financial statement in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statement

Our responsibility is to conduct an audit of the Department's consolidated financial statement in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



(OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this consolidated financial statement.

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statement. Such information is the responsibility of management and, although not a part of the basic consolidated financial statement, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statement in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with GAAS because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the Department's consolidated financial statement as of September 30, 2023, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Exhibits, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Exhibit A, *Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement*, to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit B, *Information Technology Controls Need Improvement* and *Entity Level Controls Need Improvement*, to be significant deficiencies.

Report on Compliance and Other Matters

In connection with our engagement to audit the Department's consolidated financial statement as of September 30, 2023, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statement. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests



disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01, and which are described in Exhibit C.

We also performed tests of the Department's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements and (2) applicable Federal accounting standards. The results of our tests disclosed no instances in which the Department's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statement, other instances of noncompliance or other matters may have been identified and reported herein.

Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our engagement and described in Exhibit D. The Department's response was not subjected to the other auditing procedures applied in the engagement to audit the consolidated financial statement and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 16, 2023

Material Weakness

Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement

Background:

The material weakness under this section is related to the Department's Direct and FFEL student loan portfolios.

The Department is required to perform interest rate and technical re-estimates of the subsidy costs (commonly referred to as subsidy re-estimates) of its direct loan and loan guaranty programs as of September 30 every year.

These subsidy re-estimates are calculated using an internally developed cash flow model, the Student Loan Model (SLM). The SLM utilizes assumptions based on internally sourced data elements from Information Technology (IT) systems. The future cash flow outputs generated from the SLM are input into the format required by the Office of Management and Budget (OMB) Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs, to produce the subsidy re-estimates.

Condition:

Management did not design and implement sufficiently precise controls over the relevance and reliability of certain data used in key assumptions for the SLM.

Cause/Effect:

Management's risk assessment process was not sufficient to identify the risk related to the relevance and reliability of the underlying data used in significant assumptions for the subsidy re-estimates. Additionally, management did not sufficiently communicate errors in the underlying data internally to those responsible for calculating the subsidy re-estimates. Inadequate controls over the relevance and reliability of the underlying data used to develop the subsidy re-estimates led to errors which increases the risk that the balance sheet and related notes could be materially misstated.

Criteria:

The following criteria were considered in the evaluation of the material weakness presented in this exhibit:

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle 6, *Define Objectives and Risk Tolerances*; Principle No. 10, *Design Control Activities*; Principle No. 13, *Use Quality Information*; Principle No. 14, *Communicate Internally*.
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraph 20.

Recommendation:

We recommend that management design and implement controls that require the validation of the relevance and reliability of underlying data used in developing the assumptions related to the subsidy re-estimates. Such review should be documented and maintained.

Significant Deficiencies

A. Information Technology Controls Need Improvement

The following control deficiencies in the areas of Information Technology (IT) logical access, security management, segregation of IT duties, application change management, and computer operations are related to both the Department and Federal Student Aid (FSA) systems.

Conditions:

In prior years, we reported a significant deficiency related to the Department and FSA's IT controls due to persistent unmitigated IT control deficiencies. During FY 2023, the FSA management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies, such as change and configuration management controls. However, the Department management and FSA management have not fully remediated prior-year deficiencies related to logical access administration, separated and transferred user access removal, user access reviews and recertification, configuration management, and computer operations. New and existing IT control deficiencies related to security management, access controls, and segregation of IT duties for the Department's core financial management system, three of FSA's financial and mixed systems, and one identity and access management support system are as follows:

Department:

1. Deficiencies in IT security management controls: System deficiencies, including those identified during external audits, for the Department's core financial management system were not documented in Plan of Action and Milestones (POA&M) and tracked in the security management tool, as required by Department policies and guidance.
2. Deficiencies in IT logical access controls: Access controls for new and separated contractors were not consistently and accurately performed, including the inconsistent reporting of start and termination effective dates. Further, the access controls were not consistently followed for the Department's core financial management system. Specifically,
 - a. documentation supporting the completed security awareness training for new and modified users could not be provided;
 - b. evidence supporting complete and accurate access reviews and recertifications was not provided or retained;
 - c. password controls were not designed to meet the Department's requirements; and
 - d. the Department's requirement for the use and monitoring of generic and shared accounts for two of three of the Department's financially relevant applications was not met for all accounts.
3. Deficiencies in IT controls related to the segregation of IT duties: For one of the Department's core financial management systems, users with developer access had access greater than read-only to the system's production environment.
4. Deficiencies in IT application change management and patch management controls: The application change management and patch management policies and controls were not consistently followed for the Department's core financial management system in accordance with Department policy. The Department did not provide sufficient evidence supporting tracking, security assessment, and approval for certain application changes and patches.

5. Deficiencies in IT computer operations controls: Controls over computer operations were not properly designed and implemented. Specifically,
 - a) changes to the job processing and scheduling tools were not centrally tracked;
 - b) changes were made directly in the production environment; and
 - c) the use and monitoring of generic and shared accounts for the job scheduling tool did not follow the Department's requirements.

FSA:

1. Deficiencies in IT security management controls: Management did not effectively operate corrective action, remediation, and quality review controls for IT security weaknesses. Specifically, Plan of Action and Milestone (POA&M) closure documentation for three FSA systems and one identity and access management system did not always address the root cause of the deficiencies, thereby increasing the potential of IT control deficiencies reoccurring in the future.
2. Deficiencies in IT logical access controls: The access control processes were not consistently followed for three FSA systems and one identity and access management system. Specifically,
 - a. evidence supporting complete and accurate access listings and evidence supporting new, modified, or separated users was not provided or was provided with missing required information and/or approvals;
 - b. unauthorized access was provisioned and/or access was provisioned without adhering to the least privileged principle;
 - c. evidence supporting complete and accurate access reviews and recertification controls was unavailable or was retained; and
 - d. the Department's requirement for multi-factor authentication control was not implemented for all internal system users.

Cause/Effect:

Management has not performed effective risk assessments and there was a lack of effective monitoring controls over the effectiveness of designed control activities by the Department and FSA to ensure the following:

1. All system deficiencies, including those identified during external audits, have a documented POA&M and are tracked in the required security management tool. Additionally, corrective actions to remediate prior-year conditions and associated causes are fully implemented, as well as verifying and validating that these corrective actions were effectively addressing the weakness with adequately documented supporting evidence.
2. Systems and support processes consistently adhered to documented agency-wide policies and procedures for the financial and mixed systems hosted and managed by FSA and the Department.
3. The established logical access control process is followed and requests and related evidence for new, modified, or separated users were retained, documented completely and accurately, and approved.
4. Complete and accurate access reviews are performed to detect and mitigate the risk of unauthorized accounts, access that is not commensurate with job responsibilities or least privilege, and access permissions not being revoked timely.

5. Password controls are designed to meet the Department's requirements.
6. The requirements for the use and monitoring of generic and shared accounts controls are followed and enforced.
7. Segregation of duties and least privilege principles are followed and enforced.
8. The established change process and patch management process are followed.
9. The established process for job processing changes is followed and the requirements for the use and monitoring of generic/shared accounts controls for the job scheduling tool are followed and enforced.
10. The established computer operations process detects and/or prevents unauthorized changes to the job processing tool and schedules within the core financial system environment.

Ineffective IT controls increases the risk of unauthorized use, disclosure, disruption, modification, or destruction of information, and information systems that could impact the integrity and reliability of information processed in the associated applications which may lead to misstatements of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

- The Departmental Directive OCIO 3-112, Cybersecurity Policy.
- Department Information Technology (IT) System Access Control Standard.
- Department IT Identification and Authentication (IA) Standard.
- EDCAPS System Security Plan (SSP) control requirements.
- FMS SSP control requirements.
- EDCAPS Configuration Management Plan (CMP).
- Department Information Technology System and Information Integrity (SI) standard policy section 2.2 control SI-2, Flaw Remediation.
- EDCAPS Patch Management Plan, section 4.7 Patch Maintenance.
- Department Baseline Cybersecurity Standard, OCIO-STND-01, dated September 23, 2021, Section 3.15. Acceptable Use.
- Office of the Chief Information Officer (OCIO), Information Assurance Services (IAS) Plan of Action and Milestones, Standard Operating Procedures (SOP), Version 2.8 dated July 7, 2022, Section 1.4 *POA&M Management* and Section 4.7 *CAP POA&M Workflow*.
- Cybersecurity Policy, Departmental Directive ACSD-OCIO-004, section V. *Responsibilities*.
- Information Technology (IT) System Security Assessment and Authorization (CA) Standard dated January 31, 2023, Section 2.4 *CA-5 Plan of Action and Milestones (POA&M) (P, L, M, H and Control Overlay)*.
- IT Program Management (PM) Standard dated January 31, 2023, section 2.4 *PM-4 Plan of Action and Milestones Process (P, Deployed Organization-Wide)*.
- The Green Book, Principle No. 2, *Exercise Oversight Responsibility*, Principle No. 3 *Establish Structure, Responsibility, and Authority*, Principle No. 4, *Demonstrate Commitment to Competence*, Principle No. 7, *Identify, Analyze, and Respond to Risks*, Principle No. 8 *Assess Fraud Risk*, Principle No.10, *Design Control Activities*, Principle No. 11, *Design Activities for the Information System*, Principle No. 13, *Use*

Quality Information, Principle No.16, Perform Monitoring Activities, Principle No.17, Evaluate Issues and Remediate Deficiencies.

- Federal Information Processing Standards (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems.*
- National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations, Revision 5, specifically security control requirements CA-5 Plan of Action and Milestones, PM-4 Plan of Action and Milestone Process, AC-2 Account Management, AC-5 Separation of Duties, AC-6 Least Privilege, AT-3 Role-based Training, AT-4 Training records, IA-2 Identification and Authentication (Organizational Users); CM-3 Configuration Change Control, and SI-2 Flaw Remediation.*

Recommendations:

We recommend that the Department:

1. Improve the risk assessment process over IT to help ensure the Department is appropriately defining objectives to enable the identification of risks and associated controls to help mitigate the risks.
2. Communicate control issues and/or weaknesses through established tools and relevant reporting lines to the appropriate parties on a timely basis to enable prompt evaluation and resolution of the issues and/or weaknesses.
3. Evaluate, design, and implement controls to track and report all new and separated contractors.
4. Ensure separated contractors are off-boarded and system personnel are notified in a timely manner to disable or remove access to IT resources.
5. Provide training and oversight to the Department's personnel with on/off-boarding controls to help ensure new/separated contractors are properly tracked.
6. Update access review procedures to require the reviewers to verify the access lists received to be used in the performance and operation of the access reviews is complete and accurate and not modified prior to commencing the access reviews.
7. Identify, design, and implement controls requiring a reviewer to validate the population generated for review is complete and accurate.
8. Enforce established access authorization controls and ensure all requirements are met prior to granting system access. Formally perform and document the periodic reviews of all database user accounts in accordance with Department policy to confirm access is current, authorized, and commensurate with job responsibilities.
9. Ensure the application and database server access review controls include the verification of access privileges assigned to the user accounts are commensurate with job responsibilities and follow the concept of least privilege.
10. Ensure the database and server layer controls comply and operate with the disabling of inactive accounts and account lockout duration password setting requirements, as required by Department Policy.
11. Adhere to the SSP control requirements and avoid the use of generic and shared accounts. If generic and shared accounts are required, obtain a formal risk acceptance and develop a policy and procedure to:
 - a. Authorize the use of these accounts by approved personnel,

- b. Control who can access the generic/shared accounts and those sensitive actions performed by the accounts are logged and reviewed every time the accounts are used, and
- c. Require that generic/shared accounts' passwords are changed each time approved personnel separate or transfer from the Department.

We recommend that FSA:

- 12. Design and implement improvements for the risk assessment process over IT to help ensure the FSA is appropriately defining objectives to enable the identification of risks and associated controls to help mitigate the risks.
- 13. Design and implement controls to evaluate the magnitude of impact, likelihood of occurrence, and nature of the deficiency in order to tailor the corrective actions to remediate the risk and address the root cause. Further, update guidance to ensure that quality reviews over the POA&M closure documentation are conducted to confirm the noted deficiencies are fully addressed to help prevent future reoccurrences.
- 14. Formally develop and implement a quality control review process to ensure that logical access control processes are followed completely and accurately to validate logical access requests, reviews, and recertifications.
- 15. Ensure segregation of duties and least privilege principles are adhered to when granting user access.
- 16. Evaluate and update the access review controls based on risk and enforce segregation of duties.
- 17. Reconcile the list of users' roles and responsibilities from the identity and access software tools to the lists that reside in each system accessed by such users.
- 18. Update access review policies and controls to require the reviewer to verify the access list, received to be used in the performance of the access reviews, is complete and accurate and not modified prior to commencing the access reviews.
- 19. Enforce the operation of established access authorization controls and ensure all requirements are met prior to granting access to systems.

B. Entity Level Controls Need Improvement

A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. The Department and FSA need to address weaknesses in its entity-wide control environment as we have observed, through our procedures, two entity-wide control environment conditions in the areas of risk assessment and monitoring activities that have a pervasive influence on the effectiveness of controls.

Conditions:

1. Risk Assessment- The Department and FSA's entity level controls were not designed and implemented appropriately in order to define objectives related to financial reporting processes to enable the identification of risks, define risk tolerances and identify controls responsive to those risks.
2. Monitoring Activities- The Department and FSA's entity level controls were not designed and implemented appropriately in order to remediate identified internal control deficiencies in a timely manner.

Cause/Effect:

1. Inadequate risk assessment throughout the Department and FSA prevented the proper identification and analysis of certain risks related to the financial reporting process at the Department and FSA, and from designing appropriate risk responses.
2. Insufficient monitoring prevented the Department and FSA from implementing corrective action plans and remediating control deficiencies timely.

The conditions noted above contributed to the control deficiencies described earlier in Exhibits A and B.A and could lead to other weaknesses in internal control over financial reporting.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this Exhibit:

- The Green Book Principle 6, Define Objectives and Risk Tolerances.
- The Green Book Principle 17, Evaluate Issues and Remediate Deficiencies.

Recommendations:

We recommend that management:

1. Improve the risk assessment process at the financial statement assertion level and at the process level to ensure the department is appropriately defining objectives to enable the identification of risks and define risk tolerances.
2. Implement key monitoring controls to ensure that corrective action plans are implemented to timely remediate control deficiencies identified. In addition, increase oversight, review, and accountability over the process among various offices and directorates within the Department and FSA.

Compliance and Other Matters**A. Federal Managers' Financial Integrity Act of 1982 (FMFIA)****Condition:**

Management performed an internal control assessment as required under FMFIA; however, management's assessment did not substantially comply with FMFIA and the related OMB A-123 requirements. Specifically, management did not consistently identify and document financial statement and process level risks and key controls.

Cause/Effect:

Management did not substantially meet FMFIA requirements due to a lack of adequate risk assessments over key processes and data used in the consolidated financial statement. In addition, management did not sufficiently consider FMFIA and OMB Circular No. A-123 requirements when performing their evaluation of internal controls.

This resulted in the lack of timely identification of errors in data that impacted subsidy re-estimates in the consolidated financial statement. Furthermore, management could not determine the effect of these errors on the consolidated financial statement.

Criteria:

The following criteria were considered in the evaluation of the compliance matter presented in this Exhibit:

- Section 2 of FMFIA.
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Recommendation:

We recommend that management update the risk assessment regarding the evaluation of internal controls to ensure it includes all key processes, key data, and other material line items on the consolidated financial statement.

B. Federal Financial Management Improvement Act of 1996 (FFMIA)**Condition:**

Management did not establish and maintain financial management systems that substantially comply with the following FFMIA requirements:

1. Federal Financial Management Systems Requirements. As discussed in Exhibit A, deficiencies in controls to prevent or detect errors in data used to calculate subsidy re-estimates prevented management from issuing reliable and accurate financial reporting. Specifically, management was unable to produce an auditable financial statement based on the data from the agency's financial system.
2. Federal Accounting Standards. As discussed in Exhibit A, the control deficiencies identified during the audit provide an indication that the Department's financial management systems were substantially noncompliant with applicable federal accounting standards. Specifically, management was unable to provide evidence that the cash flow projections for the subsidy re-estimates were based on sufficient relevant and reliable data preventing the agency's ability to prepare an auditable financial statement.

Cause/Effect:

Management did not substantially meet FFMIA requirements due to an inadequate risk assessment over key processes and data used in the consolidated financial statement.

This increases the risk that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statement.

Criteria:

The following criteria were considered in the evaluation of the compliance matter presented in this Exhibit:

- Section 803(a) of FFMIA.
- Appendix D to OMB Circular No. A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*

Recommendation:

We recommend that management implement the recommendation presented in the material weakness in Exhibit A.

Att: Management’s Response



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF FINANCE AND OPERATIONS

November 13, 2023

MEMORANDUM

TO: Bryon S. Gordon
Assistant Inspector General for Audit

FROM: Denise L. Carter DENISE CARTER Digitally signed by DENISE CARTER
Date: 2023.11.13 17:51:52 -0500
Delegated the authority to perform the functions and duties of the position of Chief
Financial Officer

Luis Lopez LUIS LOPEZ Digitally signed by LUIS LOPEZ
Date: 2023.11.13 18:05:01
-0500
Chief Information Officer

SUBJECT: DRAFT INDEPENDENT AUDITORS’ REPORT
Fiscal Year 2023 Financial Statement
U. S. Department of Education
(ED-OIG/A23FS0127)

We appreciate the opportunity to provide input on the draft audit report and would like to thank the Office of Inspector General audit team for their partnership and support during the annual audit.

The Department concurs with the findings and will take the appropriate actions to address the audit recommendations. The agency takes its fiscal responsibilities seriously and will make it a priority to implement business processes and internal controls to resolve the issues raised in the audit feedback as we continue to strive to return to an unmodified opinion in the future.

Please contact Gary Wood, Deputy Assistant Secretary, Office of Financial Management, Office of Finance and Operations at (202) 453-7631 with any questions or comments.

400 MARYLAND AVE., S.W., WASHINGTON, DC 20202
www.ed.gov

The Department of Education’s mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.